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Annual

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Report Highlights:

Due to its textile traditions, Portugal remains a significant cotton user and importer. Local 2002/03 raw cotton imports are estimated at 116,000 tons, but in 2003/04 they are forecast to drop slightly (to 115,000 tons) as local textiles become increasingly affected by higher EU cheap textile imports from China, India, Turkey and Pakistan. Consisting entirely in PIMA, total 2003/04 cotton imports from the U.S. are estimated at 1,050 tons. Current spinning margins discourage importation of U.S. upland cotton. 1 USD = 0.85 Euros.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Madrid [SP1], PO

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Executive Summary

Portuguese total raw cotton production remains minimal, due to lack of a farming tradition for the crop and an absence of local cotton gins. In 2002/03, production is estimated at 1,500 tons, just at the level of the EU's quota for Portugal. A roughly similar output is anticipated for 2003/04. Further expansion/contraction will depend on future EU revision of the quota.

Due to the financial constraints of the local textiles industry, which are aggravated by the EU's further liberalization of imports of third country textiles, local cotton consumption is expected to drop in 2002/03 by at least 10 percent, down to an estimated 119,400 tons. Un-differentiated yarn and fabrics continue to be displaced in the EU market by imported products from Pakistan or Turkey, while garments are also being largely affected by Chinese and Indian textiles. Cotton consumption is being maintained by the financially stronger, vertically-integrated groups, largely in the home-textiles segment, while industry renovation is being directed to the production of special yarn types that can generate larger value-added. The U.S. dollar's depreciation against the euro is another negative factor, since the local industry will lose competitiveness in the U.S., an important market for Portuguese home-textile exports. Depressed by growing EU imports of third-country textiles, we expect 2003/04 total cotton use will come down to around 116,350 tons. Current EU proposals for the WTO talks -- to cut in half import tariffs for third country textiles -- will further constrain Portuguese textile output after 2005 and cut cotton use.

Depressed by textile industry problems, local cotton imports will trend down in 2002/03 to an estimated 116,000 tons. More than 60 percent of this total is likely to be supplied by African countries -- led by Chad, Zimbabwe, Mali and Mozambique. The industry's preference for African cotton derives from long existing commercial ties and from the perceived quality of hand-picked cotton. Other factors favoring African cotton include lower prices and the close geographical proximity of producing countries, which enable cotton to be transported at low costs and in relatively small amounts. Due to the expected reduction in total textile manufacturing over the medium-term, Portuguese total raw cotton imports are expected to come down to 110,000 tons in 2003/04 and to drop even further over the coming three-to-five year period.

Consisting entirely in PIMA, Portuguese cotton imports from the U.S. are forecast to remain at 1,050 tons in 2003/04, a modest level compared against historic levels. Due to high prices and transportation costs, U.S. upland cotton is considered uncompetitive against African or Brazilian cotton. Imported U.S. cotton is presently transported in larger shipments into Rotterdam, from where it is transhipped into Portugal through smaller vessels.

1 USD = 0.85 Euros

Commodity Name: Raw Cotton

Production, Supply & Distribution Table

PSD Table						
Country	Portugal					
Commodity	Cotton				(HECTARES)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		08/2001		08/2002		08/2003
Area Planted	0	216	0	497	0	498
Area Harvested	0	216	0	497	0	498
Beginning Stocks	33312	33312	28958	26380	28958	24420
Production	0	652	0	1500	0	1500
Imports	121274	120274	119750	116000	0	115000
TOTAL SUPPLY	154586	154238	148708	143880	28958	140920
Exports	435	308	0	60	0	60
USE Dom. Consumption	125193	125000	119750	117000	0	114000
Loss Dom. Consumption	0	2550	0	2400	0	2350
TOTAL Dom. Consumption	125193	127550	119750	119400	0	116350
Ending Stocks	28958	26380	28958	24420	0	24510
TOTAL DISTRIBUTION	154586	154238	148708	143880	0	140920

Production

Based on information on subsidized area released by the national guarantee institute (INGA), we have revised the 2001 and 2002 cotton areas indicated in the PSD. No expansion in areas is anticipated for 2003, given the EU-assigned production quota of 1,500 tons of un-ginned cotton.

Consumption

General

Portuguese total raw cotton use is estimated by AGOFFICE to have fallen by some 10 percent during 2001/02, depressed by the accumulated effects of the financial situation of the local textile industry (see Industry Structure,

below) and by the EU's expanding market access liberalization for third country textiles. A temporary slowdown in the tourism business in 2001/02 is also said to have affected textile consumption levels by leading to a reduction in the number of orders for home-textiles from the hotel industry.

Another reduction in total cotton use is forecast by AGOFFICE for the 2002/03 marketing year, as rising imports of cheap yarn and fabrics from Pakistan and Turkey continue to displace orders for the local textile manufacturers. Local textile producers are also being hurt by the euro's recent appreciation against the U.S. dollar, which both causes Portuguese garments to lose competitiveness at home, as well as home-textiles to lose competitiveness in the U.S.. With some 90 percent of Portuguese garments being directed to the EU market, this industry segment is highly sensitive to competition of India or China. Unlike Portuguese garments, products from these origins are commercially-favored by a dollar depreciation as their products are priced in dollars. As for home-textiles, since the U.S. absorbs some 29 percent of total exports of this product category, an appreciation of the euro can severely erode the competitiveness of Portuguese textiles there. However, industry sources say that demand for Portuguese home-textiles has been recently rekindled by the difficulties of the Chinese textiles industry in meeting export contracts into the U.S. in association with quarantines required by the control of SARS, which eventually could off-set some of the losses derived from the unfavorable euro rates.

Domestic raw cotton consumption is forecast by AGOFFICE to come down again in 2003/04, as local industry activity levels will continue to be depressed by the growing EU trade liberalization of textiles. During the third phase of implementation of the GATT Accords between 2002 and 2005, imports of un-differentiated products, such as yarn and fabrics from third countries, especially Pakistan or Turkey, are forecast to continue to grow, depressing local cotton spinning levels. Further, the on-going liberalization process will continue to depress the competitiveness of local garments manufacturers. Affected by the difficulties of the national fashion industry asserting itself in the national and in foreign markets, garment production will tend to be especially affected by cheap textile imports from Asian countries, such as China and India.

Consumption Patterns

Some 60 percent of total cotton demand consists in SM cotton (1.3/32 and 1.1/16) for ring-spinning, with most of the remaining 40 percent consisting in SLM cotton (1.1/16 and 1.1/8) for open-end use. ELS cotton represents a market niche for some 1,500 to 2,000 tons annually; however, this niche is constrained by high thread imports. SM cotton is primarily sourced from Equatorial Africa, and SLM cotton, from Central Africa and the FSU.

Industry Structure

The Portuguese textile association (APT) reports that there are currently 495 textile factories, of which some 57 are equipped with autonomous spinners and 62 are vertically-integrated factories. Installed production capacity includes 42,000 O-E Rotors (of which some 35,000 are reported to be operational at present), some 900,000 spindles and 12,000 looms. Only some ten of the total number of operating spinning mills are considered to be in optimal condition; 15 to 20, in medium condition; and the remaining, in poor financial shape. During the seventeen years of Portugal's EU membership, the local textile industry has undergone a major adjustment process which has made it highly concentrated. The industry leaders - fully integrated with fabric or household production units - account for some 80 percent of total

consumption. Two mills consume 1,000 tons/month; seven mills, between 650 and 700 tons/month; and two mills, 400 tons/month. During the second half of CY-2002, a new milling plant started operation and is presently using some 2,000 tons of cotton a year to produce compact yarn. This increased consumption roughly balances out the effects of the closing of three mills in 2002, which under normal working conditions would jointly consume some 2,000 tons/year.

In spite of some modernization and renovation efforts, largely financially backed by the EU (see also Policy section), the industry continues to be affected by an excessive number of obsolete units with high labor costs and debt levels. Investments in new spinning mills have been minimal, as they are discouraged by reduced spinning margins. New factories consist basically of units which are directed to the production of special products that can compete with imported un-differentiated ones, being also part of vertically integrated operations. As result of the industry's drive to upgrade product quality, recent investments have basically concentrated in fabrics dying, new looms or product finishing.

Home textile manufacturing remains the strongest industry segment. Although the linen segment is presently affected by the stronger euro, the felps sector remains strong, since its output is primarily shipped within the EU. Certain specialized products, such as technical textiles -- car seats and others -- have been expanding, with locally-produced products being considered highly competitive. As previously noted, garments and fashion-related articles continue to be hurt by the limited impact of the Portugese fashion industry, both domestically and abroad.

Yarn production is mostly n.e. 30, 24 and 20 (for ring-spinning units) and 16, 12 and 10 (for open-end units). Carded and open-end yarn account for some 80 percent of total yarn production. Combed yarn's share of the total has been increasing due to the industry's need to upgrade its yarn and fabric production.

Trade

General

Local raw cotton imports are expected to suffer a significant reduction during the current year, due to the anticipated slowdown in cotton use (see Consumption section above). According to trade data released by the national statistics office (INE), local cotton imports during the period August to December 2002 remained almost at the same level as during the same period in 2001. This resulted from the effects of favorable cotton prices during the second half of 2002, which reportedly encouraged some local users to break old purchase contracts set on the basis of higher prices, in order to buy the cheaper cotton instead. However, import rates will tend to come down during the second half of the year, due to current industry activity trends. Further reductions in cotton imports are anticipated for the 2003/04 marketing year, reflecting the rising levels of cheap textiles. A trade matrix with estimated 2002/03 and forecast 2003/04 data are given at the end of the Trade Section.

Trade Trends

African cotton remains the preferred raw material for the local textile industry. INE reports that African cotton had a

market share of 63 percent during the period August to December 2002 -- compared to 58 percent during the same period in 2001. African countries are favored by long-established commercial relations and by favorable price/quality ratios. Further, their close geographic proximity permits regular shipping of small quantities of cotton. These factors are expected to remain unchanged in the future and will enable African cotton to continue to dominate the local cotton trade.

Imports of FSU cotton are expected to come down somewhat in 2002/03. Local trade sources report that the number of orders from that origin are being reduced due to changes in recent years in the terms of trade. The replacement of the old "barter" system with State-controlled trade has led to a significant appreciation in the prices of FSU cotton. Due to the Argentinian economic instability, cotton imports from that origin were suspended during August to December 2002 (compared to shipments of 1,816 tons during the same period in 2001). Imports from Turkey were drastically reduced because of higher Turkish spinning activity; they totaled 886 tons in August to December 2002, versus 1,862 tons during the same period in 2001. Total raw cotton imports from Brazil are trending up, totaling 6,282 tons during August to December 2002, compared to 5,234 tons during the same period in 2001. Local trade sources report that Brazil is expected to remain an important origin for cotton -- of "upland" type -- in 2002/03, even if its competitiveness has been somewhat affected by the weakening of the dollar. Total 2002/03 raw cotton imports from the U.S. will tend to remain mostly unchanged relative to previous year levels due to a series of factors (see below); it will consist entirely in PIMA cotton, as in 2001/02. No significant changes to these trends are reported by the local trade for 2003/04.

Factors Affecting the U.S.

Several problems affect the competitiveness of U.S. cotton. The local trade continues to report that high export prices and shipping costs make U.S. cotton uncompetitive relative to dominant African or FSU origins. According to the trade, PIMA is the only U.S. cotton type that can be competitively brought in due to the higher value added of its yarn compared to other yarn types. However, U.S. PIMA cotton competes with Egyptian and Israeli ELS, which are geographically favored origins. Local trade sources report that due to the relatively small quantities involved, PIMA is shipped into one of the main EU harbors -- usually Rotterdam -- where the containers are transferred to smaller vessels that travel to harbor of Leixoes, just outside Oporto.

Other negative factors affecting the competitiveness of U.S. cotton that are mentioned by the trade include a perception of higher levels of neps in U.S. cotton due to its mechanical harvesting; some importers also mention high micronaire and low grades with coloring problems. They also say that large U.S. cotton exporters are devote little attention to the Portuguese market.

The new FAS-sponsored Commodity Credit Guarantee Program has been reported by the local trade to be of little interest in buying U.S. cotton, as the financial charges involved -- which eventually are transferred to the local importer -- are not competitive in light of current local bank loan rates.

Trade Matrix

Import Trade Matrix			
Country	Portugal		
Commodity	Cotton		
Time period	Aug/Jul	Units:	Metric Tons
Imports for:	2002		2003
U.S.	980	U.S.	1050
Others		Others	
EU	3560	EU	3530
Brazil	16385	Brazil	16245
Chad	16210	Chad	16070
Zimbabwe	11930	Zimbabwe	11830
Mali	9240	Mali	9165
Uzbekistan	7665	Uzbekistan	7600
Cameroon	6500	Cameroon	6445
Syria	5035	Syria	4990
Uganda	4825	Uganda	4780
Pakistan	4050	Pakistan	4015
Total for Others	85400		84670
Others not Listed	29620		29280
Grand Total	116000		115000

Export Trade Matrix			
Country	Portugal		
Commodity	Cotton		
Time period	Aug/Jul	Units:	Metric Tons
Exports for:	2002		2003
U.S.	0	U.S.	0
Others		Others	
EU	9	EU	10
Philippines	51		
Total for Others	60	Total for Others	10
Others not Listed	0	Others not Listed	50
Grand Total	60	Grand Total	60

Stocks

Local cotton stocks will tend to fall in the future, as usage contracts. Most mills keep cotton equivalent to two months of consumption stocked in containers in the Leixoes harbor. However, some larger mills keep up to three months of consumption in stock.

Policy

Given the considerable importance of the textile industry, both in economic and employment terms, the sector's problems have been addressed by several programs developed by the Government of Portugal (GOP). The most important of these are financial incentives to restructure the industry, which have been funneled to the sector through several EU-backed sectorial financial "packages" to support industry modernization. The currently available financial package -- the so-called Community Structural Framework III (CSF III) -- is in effect for the years from 2000 to 2006. Given the changes in the EU's criteria for structural fund assignments after the 2004 EU enlargement, this is likely to be the last EU-backed program of this nature to be applied in Portugal. Other GOP support measures include promotional activities for textile manufacturers -- namely participation in international shows and organization of trade delegations -- which are carried out by the GOP's foreign trade agency (ICEP).

Current trends towards trade liberalization of textiles constitute a major industry concern. The gradual EU market opening instituted by the GATT Agreement -- whose third phase takes place between 2002 and 2005 -- is considered to be especially harmful for yarn, fabrics and garments. As quantitative restrictions to textile imports from third countries become gradually lifted -- to become totally liberalized in 2005 -- total spinning activity levels will tend to be depressed and sales of many sensitive products will become increasingly displaced in the EU by cheap, imported textiles. The industry's financial condition may also be affected by the WTO negotiations. In this area, the EU recently sent a proposal to the WTO to reduce textile import tariffs by 50 percent. If adopted, this proposal would drop EU import tariffs for many sensitive products, including garments, knitwear and home-textiles, from 12 to 6.54 percent. The local industry has voiced concerns that this liberalization could widen the existing gap in market access conditions between the EU and key competitors China or India, where import tariffs are currently set at thirty and forty percent for equivalent product categories. The industry has also voiced opposition to the EU's agreement to grant special treatment to developing countries which plead difficulties in applying the tariff reduction and harmonization mechanisms proposed by the EU. Other issues of concern include dumping, environmental policies and social and labor practices in Asian countries, which the Portuguese industry see as unfair competition for their textiles.

Marketing

Given the current constraints that affect the local textile industry, U.S. cotton suppliers need to address the price concerns of the local buyers in order to increase sales here. Favored by the existence of several financially-sound mills manufacturing threads and high-quality fabrics for shirts, PIMA remains the only U.S. cotton type which is considered by the industry to be competitive. However, PIMA faces the strong competition of Egyptian and Israeli ELS cotton, which are helped by shorter shipping distances and lower transportation costs. MEMPHIS cotton is presently

considered uncompetitive by the local trade, compared to African cotton. Also uncompetitive, San Joaquin Valley cotton must compete with cotton from other origins, including Australia, which according to the local trade, is a recently-established origin for similar, but lower-priced, cotton types.

U.S. cooperators should continue to carry out regular promotional activities in this market, especially crop quality seminars for the local industry. Briefings on new product developments, including colored GMO cotton types, and possible industry uses and benefits to be derived from these products, are also important.

Portuguese cotton spinners and importers are mostly affiliated with the Oporto-based Portuguese textiles association (APT). Given the high level of industry concentration, some 80 percent of total cotton imports are made directly by the larger millers. The remaining 20 percent are handled by independent dealers. Third country exporters rely basically on price advantages and face-to-face contacts. Other than the U.S., only Chad, Mali and Zimbabwe have in-country representatives. A few others, mostly European, send occasional trade missions to visit Portuguese importers. Some exporters, including Zimbabwe, Israel, Argentina and the FSU, occasionally invite a group of importers to their countries. No third country competitor is engaged in the same type of sector-wide promotional activities which have been carried out by the U.S. in the past.